ONTARIO NONPROFIT NETWORK

ONN Backgrounder: Pension Basics*

1. GOVERNMENT PROGRAMS

a) Universal programs (all seniors)

- **Federal: Old Age Security (OAS) & Guaranteed Income Supplement (GIS)**
- **Provincial: Guaranteed Annual Income System (GAINS)**

- Paid monthly to all seniors below a certain income, regardless of work history.
- Defined benefit, indexed to CPI – paid for by general taxes.
- Minimum residency requirements (Canada/Ontario). *Canada has social security agreements with many countries.*
- Maximum monthly benefit in June 2015: $563.74
- Qualifying age will remain at 65 *(decision to raise this to 67 has been reversed).*
- OAS paid out to seniors across a broad income range (currently $0 - $118K).
- GIS tops up those with single incomes below $17K.
- GAINS (Ontario) further supplements low-income seniors receiving OAS/GIS.

b) Workforce-wide programs (all workers)

- **Canada Pension Plan (CPP)**

  - Benefit amount depends on how much and how long one contributed (maximum earnings level used in determining contributions and benefits in 2015 was $53,600).
  - Defined benefit, indexed to CPI (maximum monthly benefit in 2015 was $1,065).
  - Paid by equal employee and employer contributions (9.9% combined).
  - Normally qualify at 65, but options to start lower payouts at 60 or higher at 70.
  - Provides CPP disability, death benefit and spousal benefits.

  - Provides greatest benefits to workers with regular, continuous employment.
  - Provisions for surviving spouses and for workers retiring early due to disability
  - Approximately eight "drop out" years (calculation of benefits excludes these years when income is lowest). Also drop out of child-rearing years while children under age seven.

- **Ontario Retirement Pension Plan (ORPP – *implementation bill passed into law in 2016*)**

  - In June 2016, 2nd piece of ORPP legislation (Bill 186) was passed.
  - Intended to be similar to the CPP so it can be integrated in the future.
  - Starting in 2018 (larger workplaces, 50+ employees) or 2019 (<50 employees), employers and employees will each pay premiums on earnings between $3,500 and $90,000. In the 1st year, employers and employees will each pay contributions of 0.8%, 2nd year 1.6%, 3rd year and ongoing: 1.9% of earnings.
  - Like the CPP, the ORPP will be a defined benefit plan: a predictable income, indexed to CPI. Aims to replace 15% of earnings after 40 years of contributions.
  - Mandatory for all workplaces in Ontario except those with "comparable" plans (and those that are federally regulated). The self-employed may be eligible in future.

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* *Adapted from the ONN Webinar, "Pension Basics and Nonprofit Pension Issues," presented for ONN on April 22, 2015, by Wafaa Babcock, FCIA, FSA. Last updated June 10, 2016*

2. WORKPLACE PROGRAMS

There are three basic plan types -- DB, DC, or TB.

✓ **Defined Benefit (DB) Pension Plans**

- Guaranteed benefits, based on a formula (flat amount per year of service, or based on salary and service).
- CRA imposes a benefit maximum.
- Employee contribution may be required.
- *Employer responsible to fund the plan – assumes most of the risk EXCEPT in a "member-funded" plan (rare) where employees bear most of the risk.*

✓ **Defined Contribution (DC) Plans**

- Contribution formula for both employees and employer defined.
- CRA imposes contribution limits.
- Employees often provided with investment choices.
- Retirement income depends on amount of contributions and individual account investment performance.
- If annuity purchased at retirement, income depends on purchase rates.
- *Individual employee assumes most of the risk.*

✓ **Target Benefit (TB) Pension Plans**

- Often multi-employer plans, can be jointly sponsored by employer and union.
- A target benefit is determined based on a formula.
- Employer contributions often fixed but change can be negotiated.
- *Pooled risk* – longevity, expenses and investment.
- Benefit can be portable across workplaces if agreements in place.

The following are the main types of workplace plans:

Registered Pension Plans (RPPs) – may be DB/DC/TB

- Single- or multi-employer.
- A contract between employee and employer.
- Subject to pension legislation as well as Canada Revenue Agency (CRA) rules.
- Employer contributions are not considered part of employee's taxable income.
- If employee contributes, then employee contributions are deductible.

Group Registered Retirement Savings Plans (Group RRSPs) - DC

- The contract is between employee and funding agency (insurance co., bank or trust co.).
- Employer contributes, but is just a facilitator.
- Subject to CRA rules.
- Employer contributions are taxable income to employee – subject to payroll taxes such as income tax, CPP, EI. However both employer and employee contributions are deductible.

Pooled Registered Pension Plans (PRPPs) – DC *(new in Ontario in 2015)*

- Similar to group RRSPs, but contains several Registered Pension Plan (RPP) features.
- Participation is optional for employers, and for employees of participating employers.
- Employer may contribute – not considered income for the employee (like RPPs).

3. INDIVIDUAL SAVINGS

Registered Retirement Savings Plans (RRSPs) - DC

- Voluntary individual savings mechanism with tax incentives.
- Not tied to a workplace.
- *Individual assumes all the risk*.
- Subject to CRA rules including maximum RRSP contribution room.

Other savings and investments (Tax-Free Savings Accounts, property, etc.)